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SUBJECT: PETROLEOS MEXICANOS: A VERY, VERY GOOD PLACE TO
WORK

REF: (A) 06 MEXICO 5720 (B) 06 MEXICO 6241

¶1. SUMMARY: On July 17, Petroleos Mexicanos, Mexico,s national petroleum company (Pemex), and the Petroleum Workers Union (STPRM) announced an agreement on a new collective bargaining contract for 2007-2009. The current Pemex/STPRM contract was set to expire on August 31, 2007. This was reportedly the first time since 1991 that the company and the union reached an agreement on a contract without the threat of a strike. The new contract, which gives the workers a combined wage and benefits increase of 5.85 percent, was hailed by both Pemex and the union as an example of the determination by all parties to do what was best for the company. The signing of the new contract prompted many observers of Mexico,s labor and petroleum sectors to request details of the agreement under what could roughly be described as the Mexican equivalent a Freedom of Information Act request in the U.S. Those requesting information on the new contract did not receive everything they asked for, but what they did get raised eyebrows and legitimate speculation as to whether the extremely generous terms given to STPRM members was an abuse by the union of Pemex and of the Mexican government which is so heavily dependent on oil revenues to cover the federal budget. END SUMMARY

PEMEX AND THE UNION AGREE ON A NEW CONTRACT

¶2. This year, reportedly for the first time since 1991, Petroleos Mexicanos, Mexico,s national oil company, and STPRM (Union of Petroleum Workers of the Mexican Republic), the Petroleum Workers Union, reached agreement on a new collective bargaining contract without the threat of a strike. The agreement was announced on July 17 and will cover the period from 2007-2009. The current contact, negotiated in 2005 was set to expire on August 31, 2007. The negotiations for the new contract took approximately six weeks during which Pemex agreed to give union workers a raise of 4.25 percent in salary and to pay another 1.6 percent in benefits for a total combined increase of 5.85 percent.

¶3. Many elements, or clauses, of the 2005 contact were

carried over verbatim into the new collective bargaining agreement. According to Pemex, 90 percent of the increased cost of the new contract will be covered by (unspecified) savings the company has achieved in its overall operations this year. The new contact was hailed by both Pemex and the union as an example of the determination by labor and management to do what was best for the company. The actual signing of the agreement received considerable press coverage in which numerous newspapers took pains to note that many the union leaders present at the event arrived in designer suits, with crocodile belts, &Ferragamo8 shoes, large gold watches and &Mont Blanc8 pens.

QUESTIONS RAISED ABOUT THE PEXEX/STPRM AGREEMENT

¶4. Perhaps because of the extensive press coverage, perhaps because of the large role petroleum revenue plays in the Mexican governments federal budget (in 2006 income from Pemex accounted for over 35 percent of the GOM,s total budget); the Pemex/STPRM agreement generated considerable public interest. Shortly after the contract was signed many observers of Mexico,s labor and petroleum sectors turned to the GOM for details of the agreement. Taking advantage of what could roughly be described as the Mexican equivalent of a U.S. Freedom of Information Act request, observers of Mexico,s labor sector and petroleum industry turned to two GOM agencies for the details of the new contract. Specifically they requested information from the Federal Conciliation and Arbitration Council (somewhat comparable to the U.S. National Labor Relations Board) and the Federal Institute on Access to Information (IFAI).

¶5. The main source of information was the Conciliation and Arbitration Council which, among other things, is responsible for reviewing and maintaining copies of all formally concluded collective bargaining agreements. The Council's publicly available files contain printed copies of contracts but, in the absence of an official complaint, nothing on their implementation. For information on the implementation of the Pemex/STPRM contract observers turned to IFAI. IFAI requested implementation information from both Pemex and the STPRM but neither of them were completely forthcoming. Pemex, as a state owned enterprise, was essentially required by law to respond to IFAI inquiries. However, in some instances it declined to release information claiming that the specific data requested was protected by Federal Labor Law under statues governing union autonomy. Under those same statues STPRM successfully obtained a federal court injunction which allowed it to refuse IFAI,s request for information.

PUBLICLY AVAILABLE INFORMATION ON THE PEMEX/STPRM CONTRACT

¶6. Despite the reluctance of Pemex and STPRM to provide many of the specific details on the implementation of their collective bargaining agreement, a considerable among of information is publicly available. For example, as of 2006 Pemex officially had 117,000 employees who were members of 36 Sections (Locals) throughout Mexico. One of the items that were part the Pemex and union negotiation was the question of employee transfers. Both the STPRM and Pemex acknowledge that the company has 16,000 employees whose jobs have disappeared because of plant or processing facilities closing or because they were previously employed in areas where oil production has dropped.

¶7. At present these individuals draw full salaries and benefits even though they are not actually working. Pemex is not looking to cut these workers, simply to transfer them to other facilities or company subsidiaries where workers are

still needed. The transfer of these surplus workers was one of the items being discussed in the just concluded contract negotiations. It is assumed the union agreed to these transfers dictated by business necessity, but neither Pemex nor the union has specifically said what the outcome of this point of negotiation was.

¶8. Another publicly known item concerns the amounts needed for and the consequences of, paying out retiree benefits. According information released by Mexico,s Energy and Treasury Secretariats, Pemex was supposed to invest funds in 165 special projects (infrastructure improvements) in 2007. Of these special projects, 61 have reportedly been put on hold because the company used USD 2.269 billion more than expected to cover retiree pensions and benefits. It can be argued that the company should have properly budgeted for these expenses and perhaps Pemex attempted to do so and simply miscalculated. Nevertheless, although it may have been Pemex who was at fault, it is the STPRM who is being criticized for taking funds away from badly needed capital investments.

READ THE FINE PRINT (THAT IS, READ THE CLAUSES
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¶9. The real good, bad and ugly of the details of publicly available information about past and present collective bargaining contract between STPRM and Pemex can be found by reading the clauses of the contracts on file with the Federal Conciliation and Arbitration Council. Clause numbers 32 and 33 establish important elements of the relationship between Pemex and the union while numbers 245 and 246 lay out benefits payable by Pemex to either to the union or to STPRM workers. All of the above Clauses are either broad in scope or provide generous terms of payment but they pale in comparison to Clause number 251.

¶10. Clause numbers 32 and 33 allow STPRM to discipline its members for real or presumed infractions of labor rules/statues without having to consult with Pemex company management. Moreover, the two clauses oblige Pemex to carry out almost any penalty the union imposes. For example, if a worker decides to leave the union STPRM can force Pemex to terminate that person's employment even if the employee is a highly skilled worker who has always complied in every way with company regulations. Under these two clauses Pemex does not have the right to question in any way disciplinary decisions taken by STPRM. Similarly, STPRM can expel a worker from the union for a broad range of disciplinary reasons and then force Pemex to fire the worker. Again Pemex has no right to ask why the worker was expelled from the union and if it does learn why, it has no right to question whether the alleged action by the worker merits expulsion from the union and dismissal from his/her employment.

¶11. In clause 245 of the newly negotiated contract Pemex is obliged to withhold union dues from the STPRM members and turn the dues over to the union. The amounts of the dues are determined by the union and can be used for whatever purpose the union deems appropriate. Clause 246 obligates Pemex to withhold from worker salaries any amount deemed appropriate to pay off any loans that the employee may have borrowed from the union.

THE REAL SWEETHEART DEAL IS IN CLAUSE 251

¶12. Of all the clauses in the Pemex/STPTM contract, the one that provides the most generous (and perhaps even lavish) benefits to both the union and the workers is clause 251. This clause was carried forward almost verbatim from the 2005 contract. Under this clause Pemex is required to pay the

union 84 million pesos (approximately USD 7.6 million) to be used to hire personnel specifically assigned the task of reviewing the overall collective bargaining agreement and preparing the union,s position for future contract negotiations. Under the terms of this clause of the 2005-2007 contract, STPRM hired 83 consultants, 55 general advisors, 9 technical assistants, etc., etc. for a total of 287 persons whose sole function was to help the union negotiate a better contract with Pemex. These 287 persons were over and above the regular 68 permanent members of the STPRM,s General Executive Committee who are formally charged with preparing for and conducting contract negotiations.

¶13. Other items in Clause 251 for the length of the contract include:

23.4 million pesos annually (about USD 2.15 million) to pay for May 1, International Workers Day celebrations;

13.15 million pesos annually (about USD 1.204 million) for the annual commemoration of the nationalization of Mexico,s petroleum fields and industry;

19.7 million pesos annually (about USD 1.81 million) paid to the STPRM,s General Executive Committee to cover business travel expenses;

11 million pesos annually (about USD 1 million) to cover worker transportation expenses;

3.5 million pesos annually (about USD 321,100) in food subsidies;

965,000 pesos annually (about USD 85,871) for company baseball caps for each employee;

1.29 million pesos annually (about USD 118,073) for company tee shirts for each employee; and finally

In addition to the above items Pemex is required to provide

office space (in company facilities or rented on the commercial market) and pay for the utilities for all 36 STPRM Section office throughout Mexico. Included in the payment of these offices is the Pemex,s responsibility to cover all salaries and benefits for the 327 permanent union staff that provide administrative support for the 68 members of the STPRM,s General Executive Committee.

EVEN OPPOSITION PARTIES TAKE PAUSE

¶14. Since the inauguration of National Action Party (PAN) government of Mexican President Felipe Calderon,s administration, the country,s main opposition party, the Party of the Democratic Revolution (PRD) has often taken issue with the GOM on a wide range of issues. However, with the recent media coverage of the Pemex/STPRM collective bargaining agreement even the PRD has expressed concerns over the long term implications of the union/oil company contracts. The lead Senator of the PRD faction in the Mexican Senate has expressed his party,s willingness to work with the administration to put a halt to excesses in the negotiation of Pemex labor contracts.

¶15. As the PRD describes itself as a leftist party the Senator laid the blame for the hemorrhaging of excessive benefits in the new contract on the STPRM leadership and not on the workers. The Senator also blamed Pemex company management, not just for the excessive labor contracts but also for the lack of transparency in the way Pemex does business in bidding out contract to private companies who work with the national oil company. Nevertheless, the fact that leader in the PRD in the senate was willing to publicly

express common cause with President Calderon,s government is significant sign of how shocked the general Mexican population is over the revelations of terms and clauses of the Pemex/STPRM contract reported in the national press.

COMMENT

¶16. No matter what the press, the national legislature or any other sectors of Mexican society may say, at this point the Pemex/STPRM collective bargaining agreement is a done deal. Under Mexican law there is almost no way to change the terms and clauses of the current negotiated contract until its expiration in 2009. If Mexico,s ruling PAN political party its main opposition, the PRD, work together it is possible that future legislation may force some level cutbacks limits to the salaries and benefits that can be negotiated between the union and Pemex. Given how dependent the Mexican government,s federal budget is on oil revenues from Pemex it would clearly be in the national interest to get some level of control over the oil company,s labor and administrative costs. On the other hand, unions in Mexico are very unaccustomed to any type of give-backs and it is hard to imagine that the STPRM will agree to cuts in salaries and benefits with first having resorted to a strike that could have serious and unforeseen consequences. Also, as the STPRM has historically been closely linked to the Institutional Revolutionary Party (PRI), which ruled Mexico for most of the past 70 years, the union would probably call on its traditional ally to help fight off any efforts to force serious give-backs.

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